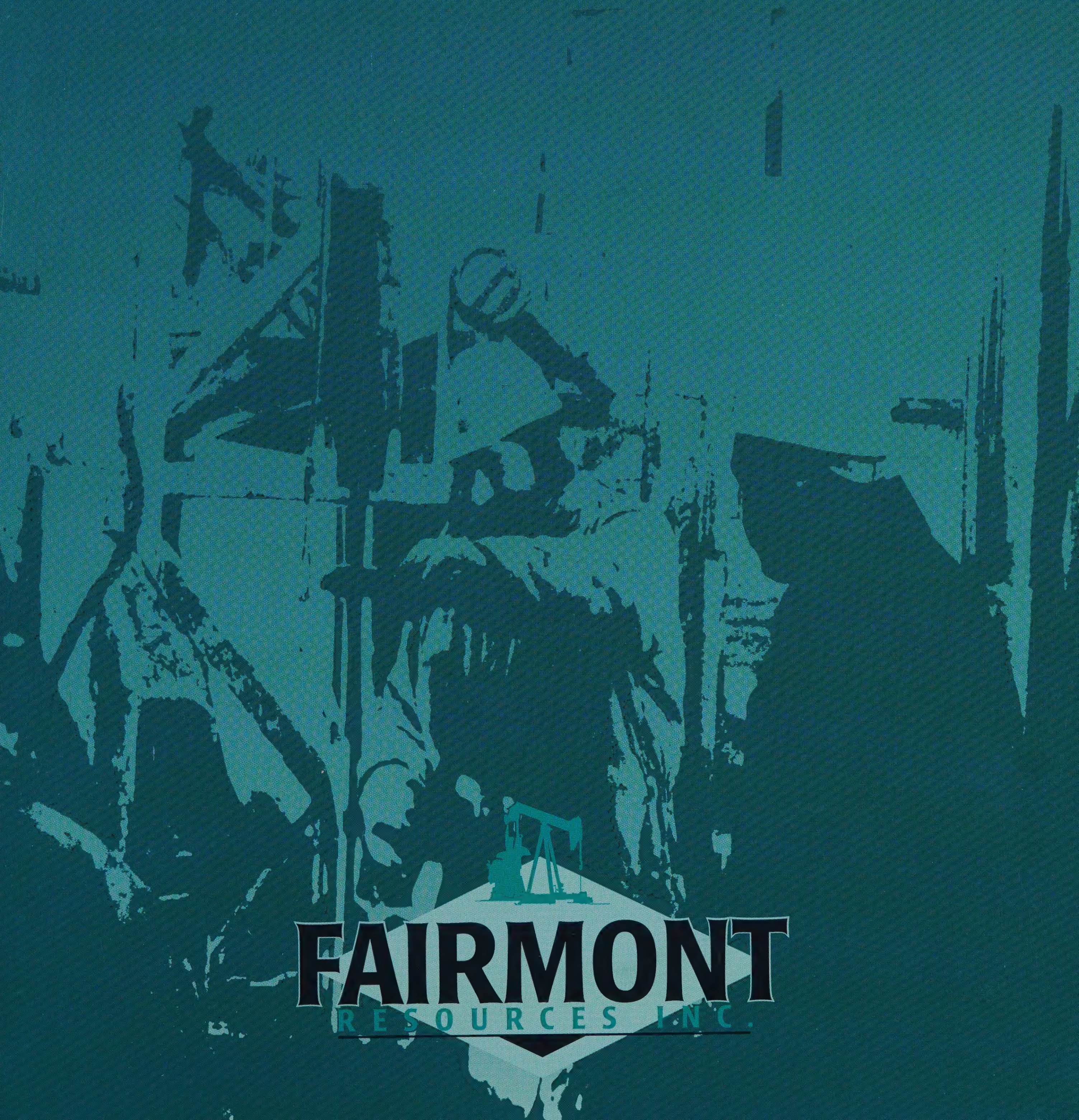
1993 ANNUAL REPORT



FAIRMONT
RESOURCES INC.

Corporate Profile

Fairmont Resources Inc. ("Fairmont" or the "Company") is a strong emerging junior oil and gas company which is actively engaged in the exploration, development and the subsequent production and exploitation of petroleum and natural gas primarily in Western Canada. Fairmont is trading on the Alberta Stock Exchange under the symbol "FMN."

Head office of the Company is located in the First Alberta Place Building in Suite 1605,
777 - 8th Avenue S.W.
Calgary, Alberta T2P 3R5.

Corporate History

The Company's incorporation by certificate of incorporation was issued pursuant to the provisions of the Business Corporations Act of Alberta on February 12, 1987. The Company's shares were listed and have been trading on the Alberta Stock Exchange since September 18, 1987.

President's Message

Even though Fairmont Resources Inc. has been in existence as a corporation since 1987, 1993 was an historic year for the Company. In December 1992, the remaining depleted oil and gas assets were sold. As of January 1, 1993, Fairmont's only asset was an interest in commercial real estate in the United States.

In 1993, the board of directors became determined to make Fairmont an aggressive junior oil and gas company. The focus of increasing shareholder value is at the heart of its mission statement, which states:

To increase shareholder value through exploration, development, acquisition and divestment of oil and gas assets; while conducting business in the highest of ethical standards.

With a clean slate, Fairmont embarked immediately to raise capital and to evaluate and acquire properties. The immediate focus of the Company was on natural gas properties notwithstanding oil prospects. In pursuit of this focus, the Company became involved in six major areas located in Western Canada: Bigstone, Brooks, Namaka, Niton, Red Rock, and Wintering Hills.

Fairmont has grown not only in quality assets but quality personnel. Clearly, the competitive advantage for the Company is the experienced, dedicated team, which has positioned Fairmont for well managed growth.

MAJOR HIGHLIGHTS OF 1993

• Raised $2,167,072 through several separate private placement financings.

• Natural gas production from zero to 2.2 Mmcf/d.

• Oil and liquids production from zero to 53 Bbls/d.

• Increased land holdings (developed and undeveloped) totaling 59,061 gross acres and 9,107 net acres.

• Reserves (as estimated by management) of natural gas (proven and probable) from zero to 17,571 Mmcf.

• Reserves (as estimated by management) of oil and natural gas liquids (proven and probable) from zero to 663,000 barrels.

• During 1993 the Company spent $4,735,000 on capital projects.

• As a benchmark, the Company concludes that the 1993 Finding Costs (per Barrel of Oil equivalent) is well below industry average at $1.30.

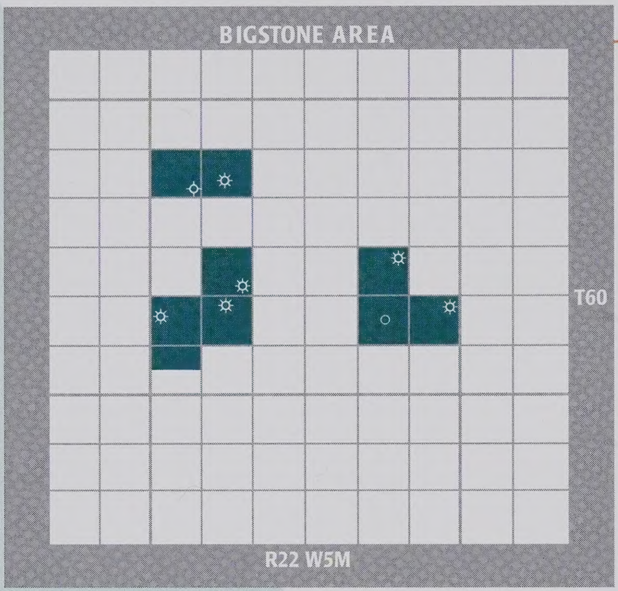
In 1994, the Company will continue to raise capital for future projects both in Canada and internationally, and to exploit the current assets developed in its first year of operation.

In closing, I wish to thank all the management and staff for their dedication, team work and perseverance in this re-creation year of Fairmont Resources Inc. Their efforts are earnestly appreciated.

Allan J. Kent
President

Exploration and Development

Starting 1993 with zero oil and gas properties and production, the six major areas are defined as follows; **PROPERTIES**



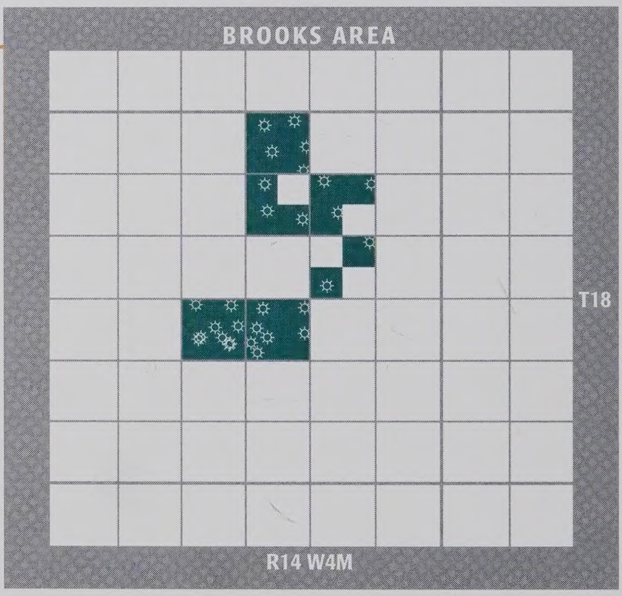
BIGSTONE

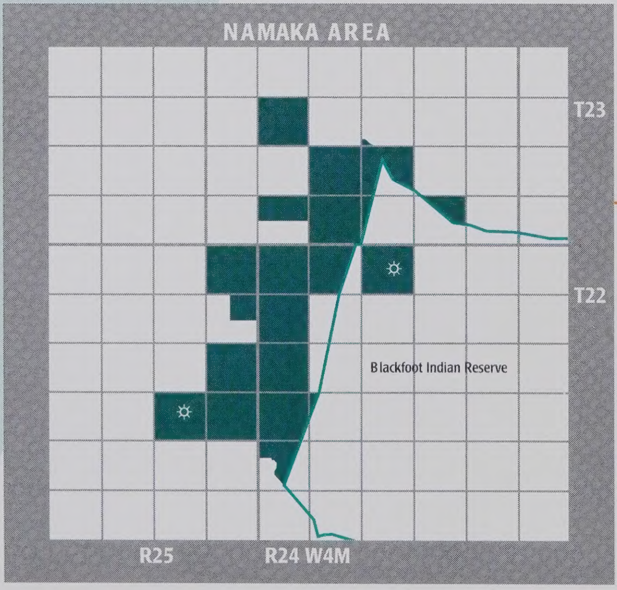
To date, this is the Company's most prosperous area. The drilling that took place in the first part of 1993, encountered rich natural gas reserves in the Dunvegan geological formation. The Dunvegan pool is classified as a new pool discovery. The Company participated in the drilling and reentry of seven (7) test wells resulting in an average interest of 26.7% in six (6) natural gas wells. Two (2) further test wells are planned in 1994.

Fairmont has a 7.8% interest in the Bigstone West Gas Plant (currently under construction) which is scheduled to be operational by early fall of 1994. The Bigstone West Gas Plant is currently designed to process 65 Mmcf/d, together with 2,600 Bbls of natural gas liquids per day. By mid 1994, Fairmont's investment in the Bigstone area is expected to be in excess of four (4) million dollars.

BROOKS

In the first quarter of 1993, the Company acquired twenty-nine (29) producing shallow natural gas wells located on five (5) sections (3,200 acres) of land in southeast Alberta. Present-day production is 1.5 Mmcf/d. Fairmont's working interest averages 37% in these wells. Supplementary to the wells, Fairmont has an undivided 45% interest in the related gathering system, compression and dehydration facilities servicing these lands.

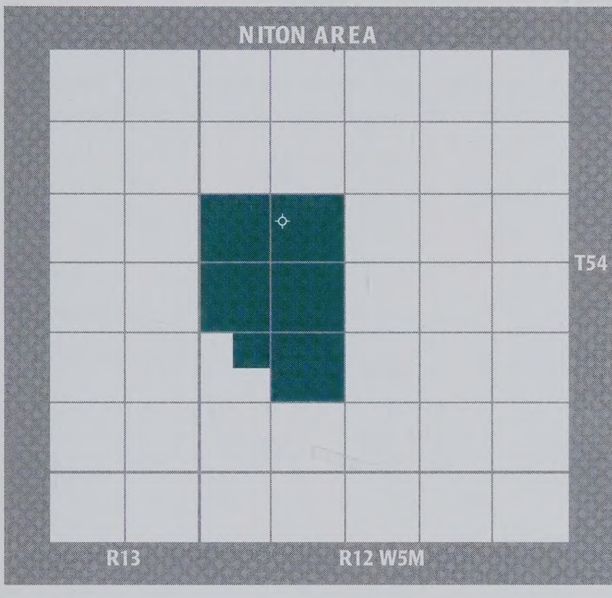




NAMAKA

The company has entered into farmout agreements which cover a total of 9,251 gross acres. Fairmont's working interest in this area varies from 6.25% to 25%. In 1994, Namaka will be one of Fairmont's major areas of exploration and development activity. The Company will be conducting an extensive seismic program throughout the area in the early summer of 1994. The results of this seismic program along with land acquisitions will lead to an exploration and development drilling program in late summer of 1994. The wells will be located in areas with multiple zone potential.

MAP LEGEND: Gas Well · Oil Well · Location Well · D & A · Fairmont Lands

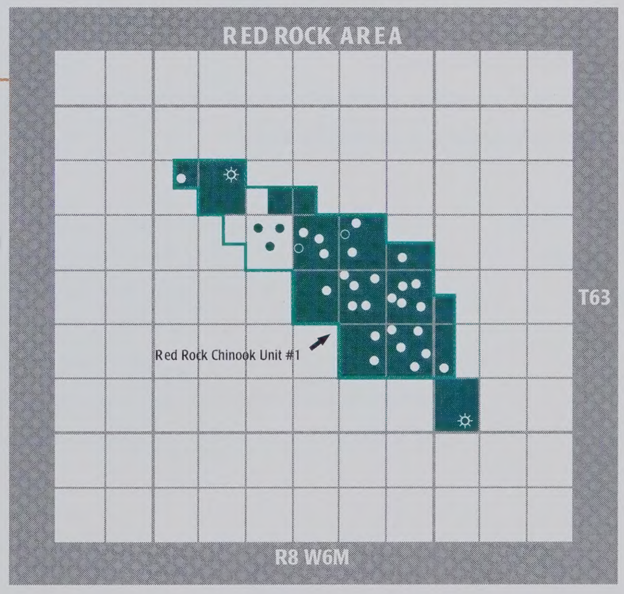


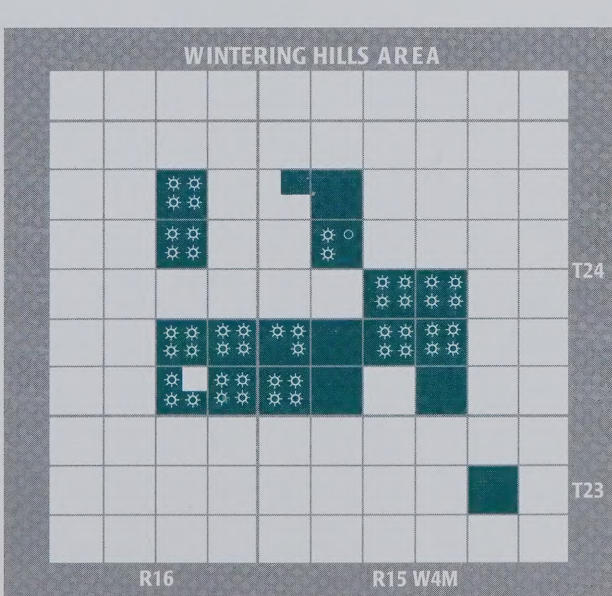
NITON

Prior to the summer, the Company entered into a farmout agreement whereby Fairmont would drill an exploratory well to test the Devonian Age Winterburn Group geological formation. Even though the well was dry, the Company earned an 8.94% interest in the test well spacing unit and 2,720 adjacent gross acres, plus the option to earn similar interests in an additional 13,280 gross acres. On top of the earned interest, Fairmont obtained valuable data from the test well and when combined with new seismic information, the probability of drilling future successful wells should be dramatically increased.

RED ROCK

Throughout the year, the Company participated in the drilling of seven (7) infill oil wells in the Red Rock Chinook Unit #1. Since acquisition, the gross production from the unit has increased seventy percent (70%) from four hundred and seventy barrels per day (470 Bbls/d) to eight hundred barrels per day (800 Bbls/d) of which Fairmont's share is 18 Bbls/d. Fairmont holds a 2.25% working interest in the Unit. In the 29 unit oil wells, the quality of the oil is light sweet at 45° API with low production declines which will result in a long life for the reserves.





WINTERING HILLS

Located in southeastern Alberta, the company participated in the drilling or completion, tie-in and production of forty-eight (48) shallow natural gas wells. The completed zones are the Belly River, Medicine Hat and the Second White Specks. The Company earned a twenty-five percent (25%) interest in all the wells and lands. Due to the success ratio, the gas plant and gathering system cannot handle all of the production. Therefore, gross production is limited to 4.3 Mmcf/d. Steps are being taken to alleviate the operational restrictions.

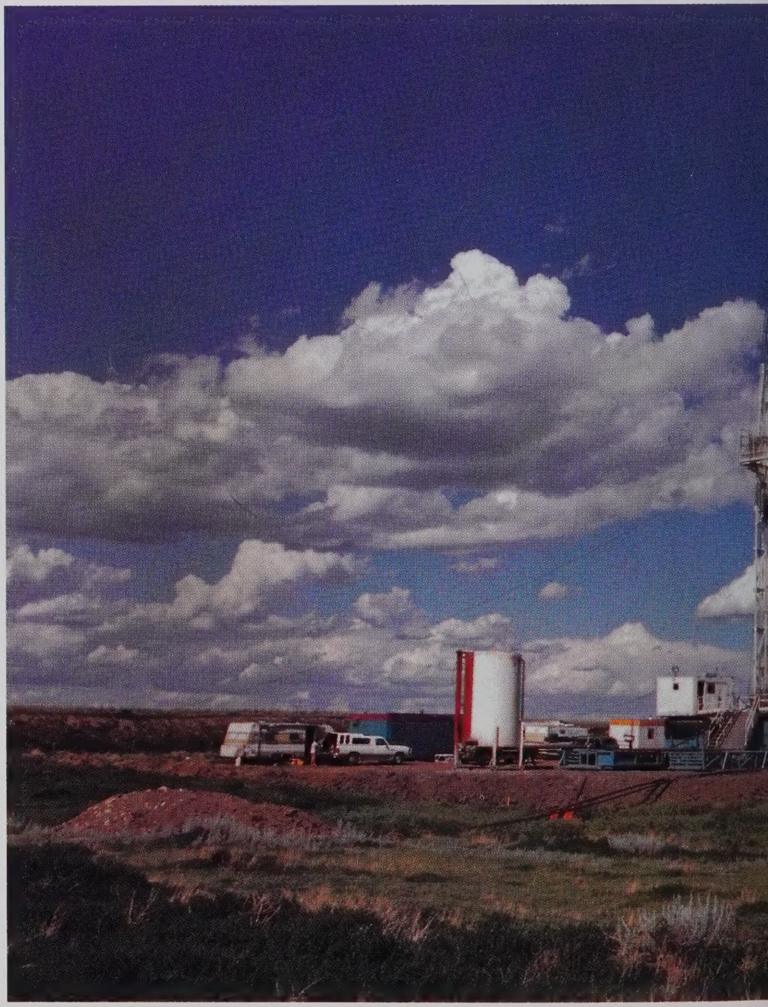
1993 Operations Activity

Wells	TOTAL Gross	TOTAL Net	GAS Gross	GAS Net	OIL Gross	OIL Net	D&A Gross	D&A Net
Drilled								
Exploratory	4	0.9	—	—	—	—	4	0.9
Development	55	12.2	48	12	7	0.2	—	—
	59	13.1	48	12	7	0.2	4	0.9
Re-entered or completed	6	1.6	6	1.6	—	—	—	—
Acquired	53	11.1	31	10.7	22	0.4	—	—
	59	12.7	37	12.3	22	0.4	—	—
Total	**118**	**25.8**	**85**	**24.3**	**29**	**0.6**	**4**	**0.9**

LAND HOLDINGS

For its first year of operations, Fairmont has amassed a good land position. The land holdings are illustrated below:

Total Acreage	Gross	Net
Undeveloped	35,063	4,591
Developed	23,998	4,516
Total	**59,061**	**9,107**



CAPITAL EXPENDITURES

The detailed expenditures are as follows:

Land and geological	$1,071,000
Drilling	1,775,000
Completion	1,242,000
Gathering and facilities	642,000
Total Expenditure	**$4,735,000**

RESERVES

For its first year of operation, the Company had unforeseen growth with respect to reserves. Fairmont stresses that these reserves are estimated by management.

	Natural Gas (Mmcf)	Oil and Liquids (Mbbls)
Proven		
Producing	4,819	115
Non-Producing	11,110	478
	15,929	593
Probable	1,642	70
Total Reserves	**17,571**	**663**

PRODUCTION

In light of the two to three year lead time for natural gas to be explored, tied-in, processed and sold to the market, Fairmont is pleased to report the natural gas production at 2.2 Mmcf/d and 53 Bbls/d of oil and natural gas liquids at December 31, 1993.

Management (by estimation) would like to state that if Fairmont did not have any future exploration or development success, the Company would exit 1994 with production of 8.0 Mmcf/d and 288 Bbls/d.

1994 Outlook

Based on the solid success of 1993, Fairmont views the future with excitement and optimism. Notwithstanding the oil price volatility and the slow recovering economy, Fairmont will continue with the same philosophy of prudent aggressive growth by drilling, exploring and exploiting the Company's land base. At the same time, the Company will meticulously evaluate potential acquisitions and other "deals" not only in Canada but internationally.

Fairmont has budgeted $5.0 million in capital expenditures for the 1994 fiscal year. These funds will be employed to build gathering systems and facilities, to bring existing wells into production, to drill additional reserves at Bigstone, Namaka and Wintering Hills, together with seismic acquisition and land assembly. The Company also intends to augment its capital requirements by preparing and completing an "Offering Memorandum" by the summer of 1994.

Most importantly, Fairmont will expand its technical and management team in order to meet the upcoming years challenges.

In 1994, the only oil and gas companies who will successfully develop will be the ones who maximize every dollar of revenue and minimize every dollar for expenses. Fairmont not only intends to grow but flourish in 1994.

Auditors' Report

To the Shareholders of
Fairmont Resources Inc.

We have audited the balance sheet of Fairmont Resources Inc. as at December 31, 1993 and the statements of earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Doane Raymond.

Calgary, Alberta
March 9, 1994

Chartered Accountants

Statements of Earnings and Retained Earnings

Year Ended December 31	1993	1992
Revenue		
Petroleum and natural gas sales	$ 838,576	$ 88,607
Less royalties	(144,802)	(15,831)
	693,774	72,776
Interest	711	418
Rental revenue	24,025	1,737
	718,510	74,931
Expenses		
Operating	250,416	45,661
Workovers	703	3,842
Depreciation and depletion	90,162	42,114
General and administrative	109,782	33,450
Interest on long-term debt	59,561	5,998
Real estate expenses	3,206	—
	513,830	131,065
Net gain (loss) before the following	204,680	(56,134)
Other		
Financing costs	(52,067)	—
Site-restoration costs	(2,960)	—
Gain on sale of fixed assets	—	68,242
	(55,027)	68,242
Net earnings before income taxes	149,653	12,108
Income taxes (Note 6)	—	—
Net earnings	$ 149,653	$ 12,108
Deficit, beginning of year	$(1,016,545)	$ (1,028,653)
Write-down of stated capital (Note 5)	900,000	—
Net earnings	149,653	12,108
Retained earnings (deficit), end of year	$ 33,108	$(1,016,545)
Earnings per share	$ 0.01225	$ 0.00166

See accompanying notes to the financial statetents.

BALANCE SHEET

December 31	1993	1992
Assets		
Current		
Cash	$ 117,629	$ 65,312
Accounts receivable	315,462	2,655
Advances to operators	119,764	–
	552,855	67,967
Property and equipment (Note 2)	4,586,865	239,270
	$ 5,139,720	$ 307,237
Liabilities		
Current		
Accounts payable and accruals	$ 521,339	$ 3,795
Due to related company	–	4,746
Current portion of long-term debt	550,000	–
	1,071,339	8,541
Long-term debt (Note 3)	1,545,303	95,303
Provision for site restoration costs	2,960	–
	2,619,602	103,844
Shareholders' Equity		
Capital stock (Note 4)	2,487,010	1,219,938
Retained earnings (deficit)	33,108	(1,016,545)
	2,520,118	203,393
	$ 5,139,720	$ 307,237

On behalf of the Board

Director Director

See accompanying notes to the financial statetents.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31	1993	1992
Cash derived from (applied to)		
Operating		
Net earnings	$ 149,653	$ 12,108
Depreciation and depletion	90,162	42,114
Site restoration costs	2,960	–
Gain on sale of petroleum and natural gas properties	–	(68,242)
Capitalized general and administrative	(53,007)	–
	189,768	(14,020)
Change in non-cash operating working capital (Note 9)	80,227	(18,751)
	269,995	(32,771)
Financing		
Proceeds from long-term debt	2,000,000	95,303
Repayment of long-term debt	–	(52,485)
Issuance of common shares for cash, net of issuance costs	1,636,900	224,200
Issuance of common shares for acquisitions of petroleum and natural gas properties and equipment	530,172	–
	4,167,072	267,018
Investment		
Acquisition of petroleum and natural gas properties and equipment for cash	(4,151,954)	(26,941)
Acquisition of petroleum and natural gas properties and equipment by issuance of common shares	(530,172)	–
Sale of petroleum and natural gas properties and equipment	307,624	93,200
Acquisition of commercial real estate	–	(239,770)
Sale of furniture and equipment	–	1,300
Acquisition of furniture and equipment	(10,248)	–
	(4,384,750)	(172,211)
Net increase in cash	52,317	62,036
Cash,		
Beginning of year	65,312	3,276
End of year	$ 117,629	$ 65,312

See accompanying notes to the financial statetents.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1993

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties and equipment as prescribed in the Guideline of Full Cost Accounting in the Oil and Gas Industry, which was issued by the Canadian Institute of Chartered Accountants.

All costs of exploring for and developing oil and gas reserves are capitalized, including land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment costs and overhead expenditures related to exploration and development activities and construction project costs. Such costs are depleted and depreciated on the unit-of-production method based on estimated gross proved reserves of oil and natural gas. Oil and natural gas production and reserves are converted into equivalent units based upon estimated relative energy content.

The capitalized costs less accumulated depletion, depreciation and deferred taxes are limited to an amount equal to the estimated net revenue from proved reserves (based on prices and costs at the balance sheet date) less estimated future general and administrative expenses, financing costs and taxes.

Certain of the exploration and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

A provision for site restoration costs (net of expected recoveries) is made if the costs can be reasonably determined. This provision, which is based on current estimates, standards and technology, is accrued over the useful life of the resource properties using the unit-of-production method.

Depreciation

Depreciation is provided using the declining balance method of accounting at the following annual rates:

Office furniture and fixtures	20%
Building	5%

Earnings per share

The Company has utilized the weighted average method of calculating the earnings per share.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 1993

2.PROPERTY AND EQUIPMENT

		1993		1992
	Cost	Accumulated Depletion and Depreciation	**Net Book Value**	Net Book Value
Commercial real estate property	$ 239,770	$ 7,782	**$ 231,988**	$ 239,270
Petroleum and natural gas properties and equipment	4,427,509	82,709	**4,344,800**	—
Office furniture and fixtures	10,248	171	**10,077**	—
	$ 4,677,527	$ 90,662	**$ 4,586,865**	$ 239,270

During the year the Company capitalized overhead expenditures related to exploration and development activities in the amount of $53,007 (1992 - $NIL).

3.LONG-TERM DEBT

	1993	1992
Production loan due May 1, 1996 payable in monthly principal instalments of $50,000 commencing February 1, 1994 and interest calculated at prime plus 1.5% secured by various petroleum and natural gas leases.	**$ 2,000,000**	$ —
Mortgage payable, 16% due June 17, 1994 payable in monthly interest instalments only of $1,000 U.S., secured by the commercial real estate property. (The Company intends to refinance with long-term refinancing.)	**95,303**	95,303
	2,095,303	95,303
Less current portion	**(550,000)**	—
	$ 1,545,303	$ 95,303

NOTES TO THE FINANCIAL STATEMENTS
December 31, 1993

3. LONG-TERM DEBT (Continued)

The principal payments due on the production loan over the next four years are as follows:

1994	$ 550,000
1995	600,000
1996	600,000
1997	250,000
	$ 2,000,000

4. CAPITAL STOCK

The Company was incorporated on February 12, 1987 under the Business Corporations Act (Alberta) with the following capital:

	1993	1992
Authorized:		
Unlimited number of common shares		
Issued:		
13,523,300 (1992 - 9,392,000) common shares	**$ 3,408,922**	$ 1,236,700
Less issuance costs	**(21,912)**	(16,762)
Write-down of stated capital (Note 5)	**(900,000)**	—
	$ 2,487,010	$ 1,219,938

a) During the year

i) The Company issued 1,791,500 shares for cash, by way of private placements, at varying prices for a total consideration of $1,030,550, with warrants to purchase 1,791,500 shares at varying prices. 1,250,000 of these warrants were exercised during the year for a total consideration of $523,500.

ii) The Company acquired petroleum and natural gas properties and equipment by way of issue of 289,800 shares at an ascribed value of $530,172.

iii) The Company issued 800,000 shares for a total cash consideration of $88,000 upon the exercise of warrants outstanding from the previous year.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1993

4. CAPITAL STOCK (Continued)

b) At December 31, 1993 there are unexercised warrants to purchase a total of 631,500 common shares at varying prices for a total cash consideration of $781,500. These warrants expire on various dates from January 26,1994 to December 1, 1994. (See Note 8.)

c) At December 31, 1993 there are outstanding stock options for directors, management and senior officers of 939,000 shares at $0.08 per share expiring January 15, 1998. (See Note 8.)

The effect of issuance of the outstanding stock options and warrants are all anti-dilutive.

5. WRITE-DOWN OF STATED CAPITAL

On December 22, 1993 the shareholders passed a special resolution allowing the Company to reduce the stated capital of the Corporation by $900,000. This amount represents substantially the accumulated deficit of the Company as at December 31, 1992.

6. INCOME TAXES

	1993	1992
Expected income tax expense of 44%	**$ 65,847**	$ 5,328
Add: depreciation and depletion	**39,671**	18,530
Less: resource allowance	**(39,650)**	—
COGPE	**(33,438)**	—
CDE	**(300,326)**	—
CCA	**(128,861)**	(4,819)
Benefit of loss carry forward	**361,109**	(13,878)
Other	**35,648**	(5,161)
Income tax expense	**$ —**	$ —

The Company has $788,523 of available loss carry forwards for income tax purposes which may be used to reduce future taxable income. The losses expire as follows:

1995	$ 43,516
1996	3,630
1997	8,963
1998	52,602
2000	679,812
	$ 788,523

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1993

6. INCOME TAXES (Continued)

The Company has available the following costs which may be deducted in the prescribed manner against future taxable income at the annual rates indicated:

	$	Rate
Canadian oil and gas property expense	683,963	10%
Canadian exploration expense	407,694	100%
Canadian development expense	1,592,636	30%
Undepreciated capital cost		
Class 3	138,824	5%
Class 8	9,223	20%
Class 41	796,448	25%
Class 43	8,250	30%

7. RELATED PARTY TRANSACTIONS

a) The Company contracted services from a related party during the year for general and administrative, land, development and exploration expenses in the amount of $40,800.

b) The Company subleases space on a month-to-month basis from the related party for a monthly fee of $600.

8. SUBSEQUENT EVENTS

a) Subsequent to December 31, 1993, certain warrants and options have been exercised resulting in the issuance of 150,000 shares for a cash consideration of $15,000.

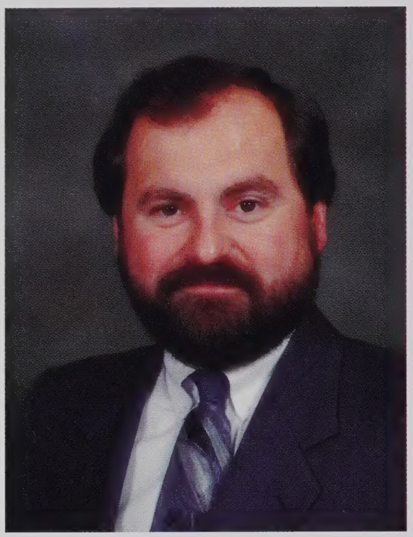
b) On January 7, 1994 the Company reserved an additional stock option for senior officers and employees of 106,000 shares at $1.00 per share expiring January 7, 1996.

c) On January 27, 1994 the Company reserved a stock option for managers and senior officers of 350,000 shares at $1.00 per share expiring January 27, 1996.

d) On January 27, 1994 the Company issued by way of private placement 130,000 shares at $.95 per share to directors, senior officers and employees for services rendered.

9. CHANGE IN NON-CASH WORKING CAPITAL

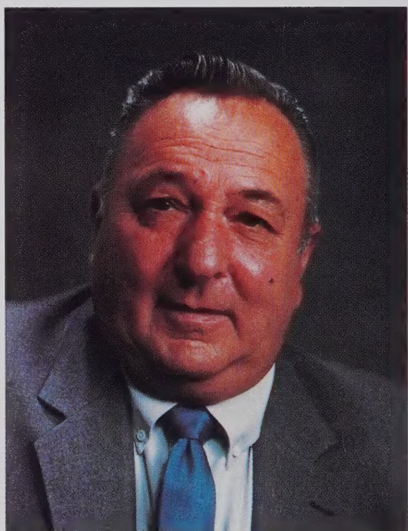
	1993	1992
Accounts receivable	**$ (312,807)**	$ (2,655)
Advances to operators	**(119,764)**	(16,132)
Accounts payable and accrued liabilities	**517,544**	36
Due to related parties	**(4,746)**	—
	$ 80,227	$ (18,751)



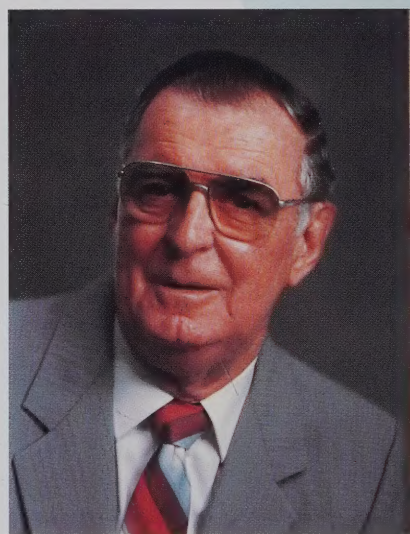
Allan J. Kent
President and Director

T.H. (Hugh) Dobbin
Vice President- Land and Director

Phillip A. Peterson
Director



Leon Shull
Director



Carl Halicki
Director

Board of Directors

Allan J. Kent
President and CEO
Calgary, Alberta

T.H. (Hugh) Dobbin
Vice President-Land
Calgary, Alberta

Phillip A. Peterson
Chairman of the Board, Highwood Distillers
President, MJ Software
Calgary, Alberta

Leon Shull
Independent Businessman
Osoyoos, British Columbia

Carl F. Halicki
Independent Businessman
Osoyoos, British Columbia

Officers and Key Personnel

Allan J. Kent, B. Math
President and CEO
Calgary, Alberta

T.H. (Hugh) Dobbin, B. Econ.
Vice President-Land

William G. Blake, P. Eng.
Geological Engineer

Brad N. Hollingsworth, C.G.A.
Manager of Corporate Affairs

Janice K. Bérubé, B.Sc.
Controller

Dwayne Burnell, B.B.A.
Manager-Gas Marketing

Bank
Canadian Western Bank
441 - 5th Avenue S.W.
Calgary, Alberta T2P 2V1

Registrar and Transfer Agent
The R-M Trust Company
600, 333 - 7th Avenue S. W.
Calgary, Alberta T2P 2Z1

Solicitors
Burstall Ward
1800, 800 - 5th Avenue S.W.
Calgary, Alberta T2P 3T6

Auditors
Doane Raymond
Suite 1000, One Palliser Square
125 - 9th Avenue S.E.
Calgary, Alberta T2G 0P6

Exchange Listings
The Alberta Stock Exchange
Stock Symbol: FMN

Executive Offices
Suite 1605, First Alberta Place
777 - 8th Avenue S.W.
Calgary, Alberta T2P 3R5

Phone: (403) 265-2216
Fax: (403) 237-7141

Abbreviations

Bbls —barrels
Bbls/d —barrels per day
BOPD —barrels of oil per day
BOE —barrel of oil equivalent (1 Bbl = 6 mcf)
BOEPD —barrels of oil equivalent per day
mbbls —thousands of barrels
mbbls/d —Thousands of barrels per day
mcf —thousand cubic feet
mcf/d —thousand cubic feet per day
D & A —drilled and abandoned
mmcf —million cubic feet
mmcf/d —million cubic feet per day
mBOE —thousand barrels of oil equivalent
API —American Petroleum Institute
ARTC —Alberta Royalty Tax Credit

Metric Conversion Table

To convert from	To:	Multiply by:
Thousand cubic feet (mcf) gas	Thousand cubic meters (E3m3)	0.028174
Barrels (Bbls) oil	Cubic meters (m3)	0.158910
Miles	Kilometers (km)	1.609000
Acres	Hectares (ha)	0.405000

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FAIRMONT
RESOURCES INC.